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FISCAL IMPACT STATEMENT

LS 6850 | **NOTE PREPARED:** Feb 19, 2009
BILL NUMBER: HB 1490 | **BILL AMENDED:** Feb 17, 2009

SUBJECT: Sales Tax Exemptions

FIRST AUTHOR: Rep. Fry | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) *Sales Tax Exemption on Recreational Vehicles and Cargo Trailers:* This bill extends the Gross Retail Tax exemption on cargo trailer and recreational vehicle sales to residents of states that do not provide a reciprocal sales tax exemption to Indiana residents.

Sales Tax Exemption on Aircrafts: The bill also provides that an aircraft is exempt from the Gross Retail Tax if the gross lease revenue derived from leasing the aircraft is equal to or greater than: (1) the book value of the aircraft; or (2) the net acquisition price of the aircraft. (Current law provides that the aircraft is exempt from the gross retail tax if the amount of lease revenue is equal to or greater than: (1) 10% of the original cost or the book value of the aircraft; or (2) 7.5% of the original cost or book value of the aircraft if the value of the aircraft was at least $1,000,000.) The bill provides that if a person meets the threshold criteria being considered exempt, the Department of State Revenue has the burden of showing the aircraft is not exempt from the Gross Retail Tax. It also provides that a person may appeal to the Department to lower the threshold if the actual price paid for the aircraft is below the book value. It allows a person to request certain waivers from the Department pertaining to the threshold. It provides that a person must meet the threshold requirements for thirteen years in order for the aircraft to be exempt from the Gross Retail Tax. It also provides that a person who acquires an aircraft with the intent to rent or lease the aircraft to another person for use in public transportation may elect a partial exemption equal to 75% of the aircraft's net acquisition price.

Effective Date: (Amended) Upon passage; July 1, 2009.

Explanation of State Expenditures: This bill could increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, as well as update computer software to incorporate the sales tax exemptions in the bill. It is estimated that the provisions of this bill could be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: (Revised) *Summary* - This bill provides Sales Tax exemptions for recreational vehicles/cargo vehicles and aircrafts. It is estimated that the RV exemptions would decrease Sales Tax collections between $1.6 M and $3.3 M annually. The impact of the aircraft exemption on Sales Tax revenue is indeterminable.

Recreational Vehicles and Cargo Trailers: This bill exempts sales of RVs and cargo trailers to nonresident purchasers who take the RV or trailer out of state within 30 days and register it in another state which does not provide a reciprocal drive-out exemption. Indiana's current drive-out exemption only applies to sales of RVs and cargo trailers to nonresidents who take the RV or trailer out of state and register it in another state which provides a reciprocal drive-out exemption. Under current law, Indiana RV and cargo trailer dealers are required to collect 7% in Indiana Sales Tax for sales to nonresidents who plan to register the RV and cargo trailer in a state which does NOT provide a reciprocal drive-out exemption.

The DOR lists nine states which do not provide a reciprocal drive-out exemption. Those nine listed states are Arizona, California, Florida, Hawaii, Massachusetts, Michigan, Mississippi, North Carolina, and South Carolina.

(Revised) *Aircrafts:* This bill provides that an aircraft is exempt from the Sales Tax if the gross lease revenue derived from leasing the aircraft is equal to or greater than the book value of the aircraft or the net acquisition price of the aircraft. Under current statute, an aircraft is exempt from Sales Tax if the amount of lease revenue is equal to or greater than 10% of the original cost or the book value of the aircraft; or 7.5% of the original cost or book value of the aircraft if the value of the aircraft is at least $1,000,000.

The bill also provides that a person who acquires an aircraft with the intent to rent or lease the aircraft to another person for predominant use in public transportation instead of requesting a 100% sales tax exemption (as in current statute) may elect a partial exemption equal to 75% of the aircraft's net acquisition price. If the person claims the 75% exemption, the bill requires that the DOR may not at any future time tax the person on the exemption already claimed, require the person to meet the revenue threshold with respect to its leasing or renting of the aircraft, or require the person to submit financial records or other documentation to support application of the partial exemption. These provisions could have an indeterminable impact on Sales Tax revenue.

(Revised) *Background Information*- Under current statute, a transaction in which a person acquires an aircraft for rental or leasing in the ordinary course of the person's business is not exempt from sales tax unless the person establishes under guidelines adopted by the DOR that the annual amount of the gross lease revenue derived from leasing or rental of the aircraft is equal to or greater than:

(1) 10% of the greater of the original cost or the book value of the aircraft, if the original cost of the aircraft was less than $1,000,000;

(2) 7.5% of the greater of the original cost or the book value of the aircraft, if the original cost of the aircraft was at least $1,000,000.

If the DOR determines that the gross lease revenue derived from leasing or rental of the aircraft in the previous year will not meet the revenue threshold, the person is required to pay the Sales Tax in the current year.

Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR.

Local Agencies Affected:

Information Sources: DOR.

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